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Babson, Roger Ward

America's great industries

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America's Great Industries

Leather and Shoes

BY

ROGER W. BABSON

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*Published in Saturday Evening Post
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America's Great Industries

Leather and Shoes

by

Roger W. Babson

Though the first tannery in America was built in Virginia and the second in Massachusetts, the early days of the industry are associated with the downtown New York. South of Brooklyn Bridge, near Franklin Square, is a district known even now as the Swamp, and it was here that the great tanneries were located and the leather trade flourished. Wall Street, Maiden Lane, Shoemakers' Pasture and the present site of the Tombs Prison once were covered with the vats and bark piles of the tanners. To this quarter came apprentices to learn the trade; and the sons of wealthy leather men in Baltimore, Philadelphia and Lynn were sent here to study the business.

It is very interesting to note how the industry developed from an economic standpoint. Before the days of the Revolution the tanners themselves made their leather into shoes. Then the two trades were separated, and we find tanners located here and shoemakers there. The next step was the introduction of a middleman, who bought leather from the tanner and sold it to the shoemaker. Thus, step by step, there grew up the typical trade organization of manufacturer, wholesaler, jobber and retailer which today is subject to so much criticism and attack. It is not my purpose in this article to discuss the rights and wrongs of the middleman; but I want to point out, particularly to my younger readers, this natural development of the middleman as we can trace it in the history of a great industry such as leather.

The origin of leather is very simple and at the same time very significant of man's willingness and ability to rule the earth. He stripped off a hide—the natural covering of an animal; then he peeled off bark—the covering of a tree; and by soaking the hide in the liquor of the bark he made leather—a covering for himself. Like so many other achievements, the process of tan-

ning was known to the anient Egyptians. The Chinese also are supposed to have had some method of the kind thousands of years ago. We read of skins cured with bark and oil by the Romans; but there was very little improvement over primitive times until about 1800, when tanners began to use lime to loosen the hair from the hides. Tanning is nothing more or less than the process of saturating raw hides with a liquor made from either oak bark, hemlock bark or a chromium compound. Under the action of any one of these liquors the pores are closed and the hides in due course of time and after various minor treatments take on the familiar characteristics of leather. The three kinds of tanning—oak, hemlock and chrome—will be found descibed in any encyclopedia.

The Great Hide Markets

When I was a boy a good steer sold for fifty dollars, while a good horse brought two hundred dollars; but experts in leather tell me the time is coming when the good steer will sell for four times the price of a horse, which, of course, means that beef-steaks and shoes are bound to advance in price. Briefly, the reason for this is that there is but one source of supply for leather—namely, the backs of animals; and, generally speaking, these animals are confined to cattle and calves, sheep and goats. Moreover, this source of supply is always known and the quantity thereof is not a subject of speculation, as is the case with iron, copper and other ores, as well as timber, cotton and semi-productive commodities. The great packing concerns and the large dealers in hides and skins always know pretty closely just how many cattle are roaming this broad earth. It is possible to obtain a cattle census as well as a census of human beings; and to the buyer of shoes and other leather goods the cattle census may really be of more importance.

In the United States of America most of the cattle and sheep are brought into one of the following eight markets for slaughter—namely, Chicago, Kansas City, St. Louis, Omaha, St. Joseph, Sioux City, Fort Worth and St. Paul. The figures given below show the totals of the past few years:

Total Cattle Slaughtered.

1908	5,392,927	1910	5,715,739
1909	5,762,405	1911	5,406,144

Our American cattle come mostly from Texas and the prairies of Iowa, Wyoming, Kansas, Nebraska and Oklahoma; but they are fed throughtout the entire Middle West, and there there are very few states that do not furnish a fair proportion of these animals. The sheep come mostly from Wyoming and adjoining states, though all parts of the country raise a certain number of these as well as various other animals. One of the first occupations of the American settlers was the raising of cattle. As they pushed farther west, other settlers followed and turned up the rich soil for planting. Now, however, the great ranges of the Far West are gradually being divided into farms as the population increases and moves westward, and soon we must look farther afield for our cattle supplies.

The United States, however, is not the only source of supply, for large herds are raised wherever there are grass lands and where the climatic conditions favor their subsistence.

The Leather Industry Abroad

In the newer countries of South America and in Australia history is repeating itself, and vast tracts of country are being turned over to cattle-raising. British India, Russia, Germany, Austria-Hungary and France are also great cattle-raising countries. The industry in South America, especially, has of recent years attained enormous proportions, and is gradually taking the place of the United States in supplying Europe. The great grazing areas of the pampas of Argentina and Brazil give promise of feeding numberless herds; and it is to this part of the world that Europe, and eventually even the United States, must look for future supplies. Probably the largest source of supply in the entire world is British India, where the number of cattle has been estimated at about ninety millions. The United States comes second, with about seventy millions; European Russia next, with over thirty-five millions, and Brazil and Argentina with about thirty millions each.

Goatskins come from poor countries, such as India, Africa and China. The condition of the goats in the last country is worthy of the most careful study. The importation of goatskins into the United States is increasing most rapidly, though it is said that up to the present time no goats have been obtained from the interior of China. If the new republic is a success and the

heart of China is opened to the world there may be a distinct drop in the price of these skins. Moreover, this also applies to certain other little-known countries.

When the manufacture of leather goods is considered, as well as the leather itself, it is found that the United Kingdom—including England and Wales with 400,000, Scotland with 50,000, and Ireland with 25,000—totals about half a million people engaged in the industry; exceeded by Germany with 650,000. The United States comes next, with about 400,000 workers; and Italy is a close follower, with about the same. Next comes France, with about 350,000 workers, followed by Austria, with about 250,000. The next country in importance is Belgium, with about 75,000 men engaged in the industry; followed by Holland and Russia, each of which has about 50,000 persons directly interested therein, though Russia has a vastly greater population indirectly interested. Moreover, Russia should show a great increase in the leather industry during the next few years. The latest figures show that Switzerland and Sweden have each about 10,000 engaged in this industry.

There are, of course other factors in the manufacture of leather which should not be forgotten at the present time—namely, the chemicals and barks with which the leather is tanned. Of course as years go on less bark will be available and a chemical and mechanical process of tanning must be used more and more. To obtain a cord of bark about 2,000 feet of timber must be stripped, which is equivalent to about four trees. Up to this time the greatest source of hemlock bark in this country has been Michigan, which in its prime contributed about 800,000 trees annually for this purpose, figuring 10,000 feet to an acre. Because of the decrease in the supply of bark and the high prices for the same, every possible source of tanning supply is being investigated and every known substitute is being tried. Of course new bark is being continually raised and new supplies in the Northwest and Rocky Mountain uplands are as yet almost untouched; but the end is to be considered.

The following table gives such a good summary of the leather industry, showing the number of wage-earners employed and the general growth in the consumption of the goods, that I cannot omit it:

INDUSTRY	CENSUS YEAR	CAPITAL	WAGE-EARNERS		VALUE OF PRODUCTS INCLUDING CUSTOM WORK AND REPAIRING
			AVERAGE NUMBER	TOTAL WAGES	
Leather, tanned, curried and finished	1880	\$ 73,383,911	40,282	\$16,503,828	\$200,264,944
	1890	98,088,698	42,392	21,249,989	172,136,092
	1900	173,977,421	52,109	22,591,091	204,038,127
	1905	242,584,254	57,239	27,049,152	252,620,986
Boots and Shoes	1880	\$ 45,184,392	115,972	\$44,358,420	\$176,517,776
	1890	103,693,294	144,216	63,763,573	245,358,534
	1900	110,363,152	151,231	61,924,065	280,047,087
	1905	136,802,000	160,294	73,072,000	357,688,000
	1910	222,324,000	198,297	98,463,000	512,798,000

In the case of iron—and some of the other great products which we shall study in this series of articles—the exports from the United States greatly exceed the imports; and, with the exception of a few finer grades of that commodity, we supply not only ourselves but also a large portion of the rest of the world. This, however, is not true in the case of leather, where our exports are small and our imports from South America, Siberia, Russia and other countries are very large. The following table shows clearly these facts, together with the changes that have occurred from year to year:

Leather—Imports and Exports.
Years Ending June 30.
Imported.

YEAR	HIDES AND SKINS (NOT FOR SKINS)	LEATHER AND FINISHED SKINS	LEATHER MANU- FACTURES	TOTAL LEATHER AND MANU- FACTURES OF LEATHER
1900	\$57,539,698	\$6,519,172	\$6,773,024	\$18,292,196
1901	48,220,013	5,701,193	6,185,819	11,887,012
1902	58,006,618	5,021,846	6,295,939	11,317,785
1903	58,031,613	5,173,566	6,120,601	11,294,167
1904	52,006,070	4,908,231	6,190,984	11,100,215
1905	64,764,146	5,612,642	6,053,591	11,666,233
1906	83,882,167	6,670,848	8,470,078	15,140,926
1907	83,206,545	8,071,285	12,322,248	20,393,533
1908	54,770,145	4,852,409	9,274,938	14,127,347
1909	78,487,324	5,313,137	8,619,997	13,933,134
1910	112,247,836	7,607,923	9,258,014	16,865,937

Exported.

1900	\$27,293,010	1906	\$40,642,858
1901	27,923,653	1907	45,476,969
1902	29,798,323	1908	40,688,619
1903	31,617,389	1909	42,974,795
1904	33,980,615	1910	52,646,755
1905	37,986,746	1911	53,673,056

Import tables for years previous to 1900 show practically the same per-capita figures as the table above. The following unofficial export table, dating back to 1872, shows very clearly the development of the industry since that date, wherein the changes have consisted, and what may be expected of the future if the present tendency continues:

Exports of Leather and Manufactures of Leather—Estimated.

YEAR	FINISHED LEATHER MOROCOCCO PATENT AND OTHER LEATHERS	SOLE, UPPER, AND OTHER	BOOTS AND SHOES	SADDLERY AND HARNESS	ALL OTHER MANU- FACTURES	TOTAL LEATHER MANU- FACTURES OF LEATHER
1872	\$153,962	\$2,864,800	\$502,689	\$65,599	\$96,979	\$3,684,029
1875	335,086	6,286,397	429,363	74,102	199,848	7,324,796
1880	658,242	5,086,118	441,069	133,705	441,052	6,760,188
1885	2,870,934	5,068,445	598,151	178,411	376,467	9,662,408
1890	4,475,989	6,609,162	662,974	238,952	361,770	12,438,847
1895	6,038,940	7,601,613	1,010,228	196,018	767,608	15,614,407
1896	9,273,215	8,491,670	1,436,686	229,295	811,920	20,242,756
1897	9,107,063	7,324,202	1,708,224	246,499	775,468	19,161,446
1898	10,043,440	7,502,976	1,816,538	214,665	1,286,033	20,363,552
1899	11,659,730	7,371,473	2,711,385	237,562	792,575	22,772,720
1900	12,014,964	7,372,279	4,274,174	504,131	713,346	25,378,894

As to the exports during different months of the year, there is a considerable variation, which seems to be in accordance with no fixed laws. In most years, however, leather exports are at their lowest during the summer and at their very highest during the latter quarter of the year. Leather imports also are apt to be at a minimum during May, June and July, and are usually greatest in the fall. However, there are often one or two heavy months for imports in the spring, either on account of supplemental orders or for general seasonable reasons. If this can be depended upon it should be an aid to producers and users of leather in judging when it is best to sell the cattle, to tan the leather and to place their products on the market.

The cattle industry up to the present time has been a fairly profitable business. The ranges have been free, the weather has been satisfactory, and there has been a slow but almost constant increase in the sale of cattle. The palmy days, however, are passing, as the free-range country is constantly diminishing and it is necessary every year to buy more and more feed. The profits in the business are not what they used to be and are likely to decline gradually. Moreover, the romance connected with the cowboy's life is gradually passing away and the labor problem is becoming a factor, even on the Western prairie.

Failures of Leather Concerns

The purchasers of cattle are becoming more concentrated and better organized, thus tending to enable them to dictate a price that continually allows a smaller and smaller profit for the ranchman. Even the jobbers are gradually being eliminated from the business, and opportunities for the small man are continually decreasing. However, the failures are not so great in this industry as in many other lines, as the following figures indicate. There were, of course, many failures in the early nineties, when every industry was sorely tried; but conditions afterward gradually improved until 1899, when failures for that cycle seem to have reached their lowest point. The industry was hard hit in 1903, and failures reached their high point during that year. The next two or three years, however, were fair—until the panic of 1907-1908, when the industry suffered another shock. For some curious reason failures are greatest in the spring and fall, though the difference from month to month is not so marked that one can depend on it. In short, every month is a dangerous month for the man in the leather industry, as one must be continually on the watch, keeping in most constant touch with the cattle census, weather conditions in the cattle country, as well as business conditions in general. Though in this industry conditions depend more on the supply than on the demand—which latter is more or less constant—yet there is a relation between the price of leather and general business.

Liabilities of Failures Manufacturers of Leather, Shoes and Harness. R. G. Dun & Co.

1896	\$4,537,785	1904	\$2,654,311
1897	3,524,740	1905	1,828,442
1898	3,596,450	1906	1,808,225
1899	1,433,720	1907	1,091,746
1900	2,313,832	1908	2,991,678
1901	2,427,911	1909	1,384,771
1902	2,546,835	1910	2,319,839
1903	3,185,156	1911	1,577,919

As to the relation of the leather industry to general business conditions, study indicates that the zenith is reached near the end of a period of prosperity and the low point near the end

of a period of depression. In other words, the leather merchant is apt to have his business increase continually throughout a period of prosperity, until it reaches its high point directly before a panic—thus being one of the last to feel the change. On the other hand, when the change comes and the country is in a period of depression, working out an area below the line of normal growth, the leather industry is one of the last to revive strongly. General business conditions, however, must, of course, be studied in connection with weather conditions, which are very important. The weather makes the crops, upon which depends the price of corn, alfalfa, hay, fodder and other feed. When the corn crop is scarce and feed high, it is reasonable to expect such conditions to ultimately affect the price of leather; while radically reversed conditions will tend toward an opposite change.

Lower Duties and Higher Prices

When our noble representatives at Washington removed the duty of fifteen per-cent from hides on August 5, 1909, we were told that the price of shoes would be materially lower; but this has not been the case. Instead of getting a pair of shoes for less money than before, we are paying fully as much, if not more than ever. Therefore the reader is interested to know why prices do not decline when the tariff is reduced. Of course the manufacturer of leather goods states that if the tariff on raw material had not been reduced the price would have advanced rapidly; the wage-earner feels this is not the case and that this increased cost is arbitrarily decreed by the various associations of manufacturers which are unconsciously combining. The fact of the case doubtless is that both interests are partly right; but certainly the increase in the number of cattle raised and consequently in the number of hides supplied to the trade has not kept pace with the growth in population and natural wants. Also, there has been a rapid increase in the uses for leather; the automobile, especially, has caused an exceedingly increased demand.

When discussing price, however, it is very necessary that the same qualities and products be compared, for there are various classes and grades. For instance, when discussing the price of a pound of sole leather we have "Hemlock B. A. and Mont.

Mid., Union Tannery Run, Scoured Backs Mid., Texas Sides, Eastern M. and Western M." When considering the upper leather we have the satin, both Eastern and Western; kangaroos, both Eastern and Western; and calfskins in "boarded chrome finish, wax, thirty and thirty-five pounds av."—upper leathers being sold by the square foot instead of by the pound, as in the case of sole leather. Hides, however, are sold by the pound, and are classified as to price in four groups—namely: "Heavy Native Steers"; "Number One Buffs, Chicago"; "Calfskins, Chicago, and Country"; Buenos Aires, duty and costs paid.

The consumer can almost surely count on a continued decrease in the source of supply and an increase in the cost of the raw material. Of course there will be variances from year to year, determined by fundamental business and weather conditions; but the general tendency in the price of raw material should continue to increase, because the supply of hides probably cannot keep up with the increase in population. Therefore, when studying "supply," this fact can always be reckoned upon with certainty. When studying "demand," however, this is a more uncertain quantity. All present investigations lead one to believe that this demand will increase at a more rapid rate than the population. If the supply decreases and the demand increases, the future for the consumer of leather is not very rosy. There are, however, three bright sides: *First*, the development of the Panama Canal, which will bring South American markets nearer; *secondly*, the improved and cheaper processes of tanning, which will take the place of the continually increasing cost of hemlock bark; and, *thirdly*, the improvement in artificial leathers, which is really becoming quite a factor.

Though nothing today takes the place of real, substantial leather, yet there are substitutes which for certain purposes are fully as good, if not better.

These substitutes are now being satisfactorily used for purposes which were not dreamed of years ago; and as we are now wearing "rubbers" that contain no rubber, our grandchildren may some day wear shoes that contain no leather! Therefore I advise consumers of leather to hunt for opportunities, inventions and substitutes that can be used in place of leather, and

meantime buy leather on slumps in the price, which occur periodically.

One suggestion, however, to all interested in leather is that a greater effort should be made to make leather more durable and capable of greater service. The most important factor in the leather industry today is the tanner, and yet many tanners know very little about the fundamentals of their work. These tanners do certain things in a certain way because they have always done so, and insufficient progress has been made along improved lines. The tanner has depended on custom for his profits rather than upon his brains, and so in many instances present tanneries have been inherited from fathers and grandfathers, the processes now in use have been inherited also.

The day is coming, however, when new processes of tanning that will double the wearing qualities of leather will be invented, and my final word to all in the leather industry is that you study your leather and endeavor to seek new and better processes of tanning. Remember, though, that one new process should not be used for all leathers. Each kind of skin has its own good and bad qualities; and the man who tans leather should not try to apply the same process to all forms. In fact I cannot criticize too severely the way the tanning end of the leather industry has lagged behind the other divisions of the work; and I am inclined to believe this industry presents a very fair opportunity to the young man with brains, energy and independence.

Leading Leather Securities

Investors in lines allied to the leather may confine their purchases of securities to four prominent companies, the securities of which are listed and thus can be purchased or sold through any reliable broker. The first and most powerful is known as the Central Leather Company—in which the packers were and may now be interested—which handles the cowhides, oak leather and other forms of sole leather used for the soles of shoes, heavy bags and general construction work. The bonds of the Central Leather Company I believe to be absolutely safe; and they can now be purchased to yield over five per cent. They are secured by tremendous tracts of woodlands, very large quick assets and exceedingly valuable manufacturing property. The preferred seven-per-cent stock of the Central

Leather Company is also an attractive purchase at times, though not enough is now known about the company to consider this a conservative investment. The common stock is a speculation which often affords great opportunities for profit when purchased and sold at the right times. This common stock, however, pays no dividends at present; and it may be some years before dividends are paid. Another corporation of importance is the American Hide and Leather Company, the six per cent bonds of which are probably all right—but the stocks are speculations; and in my opinion, the prospects for the stockholders of this company are not very bright. The American Hide and Leather Company prepares uppers for shoes and the thin skins that are used for cheap bags and various other purposes.

The greatest shoe manufacturing companies are probably those in New England, though Missouri and Ohio are coming forward rapidly. The stocks of these shoe-manufacturing companies can be purchased through Boston and St. Louis brokers, and many of them are probably good investments. With the exception of the McElwain Company and one or two others, these are more or less "close" corporations and, therefore, are not in the class which I am justified in treating in these articles. Another corporation bearing a very close relation to the industry is the United Shoe-Machinery Corporation, which manufactures shoe machinery, used throughout the world. The stocks of this company are traded in on the Boston Stock Exchange, and the preferred stock should be a perfectly safe investment, with a good yield. Many conservative investors feel likewise concerning the common stock of this company, but of this I am not prepared to speak. If, however, the United Shoe-Machinery Company and the packers ever combine and form a corporation—like the United States Steel Corporation—the organization should be a tremendous money maker; and I believe that—unless prevented by law—such an organization will be formed some day.

Space will not permit me to enter into a tariff discussion.

In conclusion I urge the rancher to raise more and more cattle. To the manufacturer I say: Buy leather on all dips! My message to the consumer is: Endeavor to seek satisfactory substitutes.

If you wish to invest any money in the leather industry

it may be wise to align oneself with the large interests and study Central Leather securities. The following facts about this company are reported: During the past year the gross sales of the company amounted to \$52,991,240, a decrease of \$2,649,142 over the previous year. The detailed statement of the income account for the past two years is given in the following table:

	1911	1910
Net earnings of subsidiary companies	\$2,278,489	\$3,403,680
Income from investments	20,160	144,210
Total net earnings	\$2,304,649	\$3,547,890
Interest on bonds and debentures	2,009,467	2,053,387
Balance	\$ 295,182	\$1,494,503
Preferred dividends	2,330,930	2,330,930
Deficit	\$2,035,748	\$ 836,427
Previous surplus	3,806,206	4,642,633
Total surplus	\$1,770,458	\$3,806,206

The earnings for 1912, however, are showing up very much better, and it is generally believed that the preferred dividend may be earned.

The decrease in the company's profits in these two years from those of previous years has been due to the conditions of the hide-and-leather market, which have been worse during this period than has been experienced for some time. Since a year ago, however, there has been a marked improvement; and the present indications are that the tendency of prices is upward and that the company will undoubtedly make a better showing in the future.

Notwithstanding the period of poor business the company has passed through, it is in excellent financial condition. Its current assets exceed its current liabilities by \$48,425,972; and during the past year it reduced its bills payable by \$10,435,500, or about 65 per-cent.

The first-lien gold 5-per-cent bonds mentioned above were dated April 1, 1905, and mature April 1, 1925. The authorized issue is \$45,000,000, and the balance is reserved to retire the United States Leather Debenture 6's, to acquire new properties, and so on. They are secured by a lien on the lands and assets of the company, and by pledge with the trustee of bonds, mortgages, notes and stocks of the subsidiary and other companies, to the par value of \$63,899,210. A special feature of the mortgage is the provision that cash items and quick assets equal to

the par value of the outstanding bonds are to be kept on hand subject to the trustee's inspection once a year. These bonds are listed and are fairly active on the New York Stock Exchange. They fluctuate in price, of course, to a greater extent than high grade railroad bonds, and, in common with other securities, in the next year or so, may sell temporarily at lower prices than they do today but later they should ultimately sell for higher prices than they are bringing at the present time.

On account of the large assets of the company—which include valuable timberlands—and on account of the healthy condition of the company, I believe these bonds are safe as to principal and interest. They can be purchased now for about 95 and will therefore yield about 5.40 per cent.

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